Subject: CCA Reflects: DTLA Vacancy Rate – January 2018
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CCA Reflects is a monthly series where we share our insights on what is happening in DTLA and the region. This is our first piece of the series.

Swings in Downtown Vacancy Rate Hold Lessons for the Entire Region

By Jessica Lall, President & CEO, Central City Association

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Last September, real estate company CoStar reported that the vacancy rate for rental housing in Downtown Los Angeles had hit 12.4%, its highest point in 17 years. Questions quickly arose about the future of housing development: Was Downtown overbuilt? Was demand leveling off? Were we building housing for the right people, at the right income levels? What did this mean for the rest of the city?

Just four months later, the vacancy rate has declined to 10.3%, even as hundreds more units opened in

Dow ntow n. These sw ings in the housing market may put some on edge — stirring up concerns ranging from gentrification to a cooling economy — but they can also be instructive. Below are four lessons that Central City Association has learned from these vacancy reports and our long history of advocating for Dow ntow n employers, residents, and visitors.

First lesson: In a geographically small, rapidly urbanizing neighborhood like Dow ntow n, large sw ings in the vacancy rate are to be expected. The DTLA submarket includes less than 15,000 four- and five-star rental units, meaning that opening a single 500-unit building can temporarily spike the vacancy rate by more than 3%. Four 500+ unit buildings w ill open Dow ntow n in 2018 alone, and nearly 6,000 units w ill open this year in total.

Since 2014 the vacancy rate for four- and five-star rentals has ricocheted repeatedly betw een a low of 6% and a high of 16%, first rising as new units came online, then dropping as residents began to lease and move in, then climbing again as more rentals w ere completed, and so on. Buildings over a year old, w hich have had enough time to fully lease up, w ould be a more stable measure of the housing market. For those units, the vacancy rate is just 4.7% according to CoStar, nearly the same as the cityw ide average.

Second, vacancies mean that property ow ners must compete more fiercely to w in a tenant's business. The expected result is exactly w hat Dow ntow n has seen in recent months: stabilizing rents in existing apartments, and incentives like free parking and a month of free rent in new buildings. In a city w here rent grow th has outpaced w age grow th for far too long, this is a step in the right direction.

The third takeaw ay is that w hether the vacancy rate is high or low , w e should alw ays be looking for innovative w ays to address our city's housing needs. We must build new and diverse types of housing that are affordable to the full spectrum of Angelenos, from single community college students to retirees, and from homeless individuals to families w ith children.

To do so, w e should allow for housing types like micro-units and co-living, and eliminate out-of-date rules like those that require large average unit sizes in renovated buildings, effectively shutting out less affluent residents from living there. We should ensure that new er typologies such as live/w ork housing can be built affordably for middle-class renters and buyers. The city should eliminate parking requirements in accessible communities like Dow ntow n, reducing the cost of new housing and allow ing more Angelenos to live close to high-quality transit. And w e should continue to invest in affordable housing and approve the Permanent Supportive Housing ordinance to expedite the creation of homes for our most vulnerable residents.

The final lesson is perhaps the most important: Housing L.A.'s residents must be a responsibility that w e share w ith neighborhoods across the city. Although Dow ntow n is uniquely w elcoming of new residents and businesses and should continue to be the city's center for grow th, it can't solve the region's housing crisis on its ow n. Since 1999 Dow ntow n has accommodated 20% of the city's grow th on just 1% of its land, and w e are forecasted to add 125,000 additional residents over the next 20 years. In addition, nearly one-third of

Dow ntow n's housing stock is restricted to low income residents. Every community needs to pitch in and do its part to increase housing for people at all income levels.

Vacancy rates are low est in the nation's most expensive cities — places like San Francisco, New York, Boston and yes, Los Angeles too, despite the ups and dow ns of Dow ntow n's local market. Meanw hile, places like Miami, Charlotte, and Dallas sustain consistently higher vacancy rates and dramatically more affordable homes. They do so by building housing in large numbers, not only in diverse forms but also across w ide geographies. Los Angeles must find w ays to do the same to continue to be a w orld-class city that is w elcoming to all.

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Central City Association of Los Angeles

Enhancing DTLA's vibrancy and increasing investment in the region

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